

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 AGR-20

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 DRC-01 /149 W  
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R 120404Z APR 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 5634

S E C R E T PHNOM PENH 5248

E.O.11652: GDS

TAGS: EAID EFIN CB

SUBJECT: HYPERINFLATION AND DOMESTIC SUPPLY

1. AS WASHINGTON AGENCIES WILL RECALL, SINCE EARLY DECEMBER WE HAVE BEEN ACUTELY CONCERNED WITH THE PROBLEM OF HYPERINFLATION IN CAMBODIA. ALSO AS REPORTED, WE HAVE BEEN WORKING WITH THE LONG BORET GOVERNMENT TO FORMULATE AND BRING INTO EXECUTION A SERIES OF POLICIES DESIGNED TO COMBAT INFLATION. SOME OF THESE HAVE HAD BENEFICIAL IMPACT. FOR EXAMPLE, THE PRICE OF RICE DECLINED IN DECEMBER AND AGAIN IN JANUARY. PROGRESS IS ALSO BEING MADE IN WORKING WITH THE GOVERNMENT IN FORMULATING A NEW BUDGET EXECUTION ARRANGEMENT DESIGNED TO CONTAIN THE INFLATIONARY IMPACT OF THE GOVERNMENT BUDGET DEFICIT.

2. HOWEVER, IT HAS BECOME CLEAR THAT SUCH MEASURES ARE BY THEMSELVES INSUFFICIENT TO COMBAT THE ROOT CAUSE OF HYPERINFLATION. THAT CAUSE IS THE STARK FACT THAT PHNOM PENH IS NOW VIRTUALLY CUT OFF FROM ITS HINTERLAND. ALTHOUGH THE MEKONG REMAINS OPEN TO FOREIGN SUPPLY. THE INTENSE FIGHTING AROUND PHNOM PENH IN JANUARY AND FEBRUARY HAS RESULTED IN DRYING UP THE FLOW OF DOMESTIC COMMODITIES WHICH HERETOFORE WERE ABLE TO COME

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INTO THE CITY ONE WAY OR THE OTHER. WHILE THE LINES OF

COMMUNICATION TO THIS CAPITAL CITY HAVE BEEN INTERDICTED FOR SOMETIME IT IS ONLY IN THE LAST TWO MONTHS THAT THE FULL ECONOMIC IMPACT OF THIS NEAR ECONOMIC STRANGLEHOLD IS NOW BEING FELT. A MAJOR FACTOR WHICH HAS MADE THE SITUATION MORE DIFFICULT HAS BEEN THE LARGE FURTHER INFLUX OF REFUGEES INTO THE CITY OVER THE PAST SEVERAL MONTHS AND THE ENTIRE STATE OF AFFAIRS IS, OF COURSE, AGGRAVATED BY PROFITEERING INEVITABLE IN TIMES AS THESE.

3. IN THE LAST WEEK PRICES HAVE TAKEN A QUANTUM JUMP. DURING WEEKEND OF APRIL 5-8, FOR EXAMPLE, THE PRICE OF NO. 1 DOMESTIC (BATTAMBANGK) WHITE RICE ROSE 23 PERCENT, TOMATOES 17 PERCENT, ONIONS 12 PERCENT, OCEAN FISH 8 PERCENT, CAULIFLOWER 7 PERCENT. SOME OF THESE JUMPS ARE IN PART DUE TO KHMER NEW YEAR'S HOLIDAY, AND FOR MANY COMMODITIES THERE WERE NO CHANGES AND FOR SOME EVEN MODEST DECLINES. HOWEVER THE TREND OVER THE PAST THREE WEEKS HAS BEEN FOR APPRECIABLE INCREASES. FOR EXAMPLE, PAPAYAS ROSE 139 PERCENT, OCEAN FISH 86 PERCENT, PORK 42 PERCENT, CHICKEN 21 PERCENT, EGGS 20 PERCENT, BEEF 17 PERCENT. AGAIN, PRICES FOR MANY COMMODITIES, MAINLY LOCAL FRUITS AND VEGETABLES, EITHER WERE UNCHANGED OR SHOWED MODEST DECLINES, AND SOME OF THE INCREASES ARE ADMITTEDLY SEASONAL TRENDS. BUT, WE THINK THE TREND IS NOW VISIBLE. WE HAVE REVIEWED RETAIL PRICE TRENDS BOTH FOR THE PAST THREE MONTHS AND FOR THE PAST 15 MONTHS. FROM THIS REVIEW, IT SEEMS CLEAR THAT PHNOM PENH IS IN NOT ONLY FOR CONTINUING BUT INCREASING HYPERINFLATION.

4. THE ALLEVIATION OF THIS SITUATION, IN THE NEAR TERM REQUIRES MORE DOMESTIC SUPPLY FOR PHNOM PENH. THIS MEANS ADDITIONAL ALTERNATIVE TRANSPORT.

TO DEAL WITH THIS PROBLEM, WE HAVE HAD DISCUSSIONS WITH THE PRIME MINISTER AND OTHER GKR HIGH OFFICIALS TO TRY AND WORK OUT ALTERNATE TRANSPORT AND SUPPLY ARRANGEMENTS. THESE ARE:

A. TO INSTITUTE MAJOR RIVER CONVOY OPERATIONS ON THE TONLE SAP RIVER BETWEEN KOMPONG CHHNANG AND PHNOM PENH.

B. TO INSTITUTE SEALIFT FROM KOMPONG SOM TO  
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PHNOM PENH VIA THE MEKONG.

C. TO EXPAND DOMESTIC AIR CARGO CAPACITY.

D. TO ORGANIZE MORE EXTENSIVE PROCUREMENT OPERATIONS BUYING AND TRANSPORTING TO PHNOMPENH DOMESTIC COMMODITIES WHICH ARE CRITICALLY NEEDED. WE HAVE ESTABLISHED A TASK FORCE IN THE MISSION AND ARE TRYING TO HELP THE GKR TO ORGANIZE ITS OWN TASK FORCE TO DEAL WITH EACH OF THE ABOVE MEASURES.

IT IS STILL TOO EARLY TO SAY HOW SUCCESSFUL THESE  
EFFORTS WILL BE IN PROVIDING FOR AUGMENTED SUPPLY  
FOR PHNOM PENH AND SLOWING PRICE RISES. SOME DEGREE  
OF SUCCESS IS, HOWEVER, NECESSARY TO KEEP THE HOME FRONT  
UNDER CONTROL: OTHERWISE THE GKR'S ABILITY TO MAINTAIN ITS  
MILITARY EFFORT WILL BE REDUCED.  
DEAN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INFLATION, ECONOMIC CONDITIONS, ANTIINFLATIONARY PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 12 APR 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974PHNOM05248  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D740084-1172  
**From:** PHNOM PENH  
**Handling Restrictions:** n/a  
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**Legacy Key:** link1974/newtext/t19740445/aaaaboul.tel  
**Line Count:** 122  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** SECRET  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** SECRET  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 10 JUL 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <10 JUL 2002 by martinml>; APPROVED <26 MAR 2003 by GolinoFR>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** HYPERINFLATION AND DOMESTIC SUPPLY  
**TAGS:** EAID, EFIN, CB  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005